

PUBLIC BRIEFING ON
THE MAYOR'S PROPOSED FISCAL YEAR 2010
BUDGET AND FINANCIAL PLAN

Before the
Committee on the Whole
Council of the District of Columbia

The Honorable Vincent C. Gray, Chairman

March 23, 2009; 10:00 a.m.
Council Chamber, John A. Wilson Building



Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Gray and members of the Committee of the Whole. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia government. I am pleased to be here for your public briefing on the Mayor's proposed FY 2010 budget and FY 2010 through FY 2013 financial plan.

For the first time in many, many years we have a budget proposal that is smaller than the previous year's approved budget, \$5.3 billion compared to \$5.6 billion. The 2010 proposed budget and five year plan is balanced, our fourteenth consecutive balanced budget. Unlike previous years, it is a budget designed to get the District through the worst economic times in most of our memories.

In addition, the current fiscal year's adjusted revenues and expenditures are balanced, following three downward revisions in the revenue estimates since September.

In previous years, we have looked for ways to spend rising revenues creatively and effectively. This year the job is to provide the services our people need at the levels of quality they have come to expect. Mayor Fenty and City Administrator Tangherlini should be commended for their work to produce a balanced, workable budget that is in stark contrast to the growth-oriented proposals of the past several years.

In addition, we have maintained a “rainy day fund” – the emergency and contingency cash reserves -- of at least \$360 million throughout the four year plan. And in our capital budget, we have been prudent in our borrowing by observing our debt cap limits.

The economic outlook for the District of Columbia has changed dramatically from that of a year ago when the previous budget was submitted to the Council. The current forecasts assume that economic conditions will continue to deteriorate as employment and wages edge downward, commercial property vacancies rise, real property transfers slow further, and construction projects are delayed.

Even with this grim outlook, we are in relatively better fiscal shape than other states and cities that are projecting deficits into the billions. On the negative side, a significant portion of our population is not well educated or trained to fill jobs in the growing employment areas and the services they will need and that we must provide will continue to tax our resources at increasing levels.

On the plus side, we are fortunate to be a center for three growth areas – government, education and health. And, even though our revenues are shrinking, the diversity of our tax base will help us to pull through these times in better shape than many other states and localities.

The Mayor has taken the opportunity of the current economic crisis to rationalize and “right-size” the budget. In the past we consistently had unsustainable budget increases. This budget bends the curve.

Looking ahead, we must continue the sound fiscal policies that have produced balanced budgets that provide quality services to all of our people. I am often accused of being overly pessimistic, but at this time I believe that the record we have established gives us the right to be optimistic that we will come through this period with a record of responsibility and service that will be a point of pride for all of us.

I am certifying that the FY 2010 – FY 2013 Budget and Financial Plan, as proposed, is balanced.

EXPENDITURES

Local Funds

The FY 2010 Mayor’s Proposed Budget includes \$5.377 billion in spending supported by \$5.379 billion of Local Funds (not including dedicated taxes), with an operating margin of \$2.7 million.

Table 1				
Proposed FY 2010 Budget Summary - Local Fund				
(\$ in thousands)				
	<u>FY 2009</u>	<u>FY 2010</u>	<u>Dollar</u>	
	<u>Approved</u>	<u>Proposed</u>	<u>Change</u>	<u>% Change</u>
Local Taxes	\$5,028,721	\$4,638,961	(\$389,760)	-7.8%
Non Tax Revenues (including revenue proposals)	380,420	529,045	148,625	39.1%
Lottery/Interfund Transfer	71,000	65,775		
Appropriated Fund Balance	117,260	145,662	28,402	24.2%
Total Local Fund Resources	\$5,597,401	\$5,379,443	(\$217,958)	-3.9%
Operating Expenditures	\$5,501,087	\$5,288,007	(\$213,080)	-3.9%
PAYGO Capital	\$14,714	\$0		
Transfer to OPEB	81,100	88,700	7,600	9.4%
Total Expenditures	\$5,596,901	\$5,376,707	(\$220,194)	-3.9%
Projected Operating Margin	\$500	\$2,736	\$2,236	

The Mayor's proposed Local Funds expenditures for FY 2010 of \$5.377 billion represents a decrease of \$220 million or 3.9 percent from the \$5.597 billion FY 2009 approved Local budget.

The Mayor proposes a \$571.5 million Special Purpose Revenue Fund budget for FY 2010, financed with \$458.8 million of FY 2010 revenues (7.5 percent higher than FY 2009 approved), \$67.8 million of fund balance, and \$45.6 million in revenue proposals.

General Fund

The Local Funds and Special Purpose Revenue Fund budgets, together with the dedicated taxes, comprise the General Fund. Table 2 summarizes the FY 2010 proposed General Fund budget and shows the change from FY 2009 approved to FY 2010 proposed.

Table 2				
Proposed FY 2010 Budget Summary - General Fund				
(\$ in thousands)				
	FY 2009	FY 2010	Dollar	%
	Approved	Proposed	Change	Change
Total Non Dedicated Taxes	\$5,028,721	\$4,638,961	(\$389,760)	-7.8%
Dedicated Taxes*	222,977	407,687	184,710	82.8%
Non-tax Revenue	332,498	324,786	(7,712)	-2.3%
Special Purpose (O-type) Revenue	453,612	458,816	5,204	1.1%
Miscellaneous Revenues (including revenue proposals)	130,582	242,108	111,526	85.4%
Appropriated Fund Balance	197,379	183,417	(13,962)	-7.1%
Total General Fund Resources	\$6,365,769	\$6,255,775	(\$109,994)	-1.7%
Operating Expenditures	\$6,085,035	\$5,926,218	(\$158,817)	-2.6%
School Modernization Fund	106,000	\$0	(106,000)	-100.0%
PAYGO Capital	19,014	\$2,984		
Transfer to OPEB	81,100	88,700	7,600	9.4%
Transfer to Enterprise Funds*	72,769	232,952	160,183	220.1%
Total Expenditures	\$6,363,918	\$6,250,854	(\$113,064)	-1.8%
Projected Operating Margin	\$1,851	\$4,921		

* FY 2010 dedicated taxes includes those for convention center, TIF, PILOT, and Highway Trust Fund, all of which are transferred to enterprise funds.

See Attachment 1 for the four-year General Fund plan.

REVENUE OUTLOOK

As I testified last fall and reiterated in the December and February revenue estimates, the economic outlook for the District of Columbia has changed dramatically from that of a year ago when the FY 2009 proposed budget was submitted to the Council. At that time the outlook was for a slowdown in the economy and its local revenue flow, but that the District would likely avoid a recession.

However, by the beginning of FY 2009, the national economy was in its ninth month of recession, and the economy of the District of Columbia was feeling its impact. As of January 2009, there were 10,783 (3.5 percent) fewer DC employed residents than the previous year.

Our current economic forecast assumes that DC economic conditions will continue to deteriorate as employment and wages edge downward, commercial property vacancies rise, real property transfers further slow, and construction projects are delayed. The unemployment rate is projected to rise from its current 9.3 percent (preliminary for January 2009) to an annual rate of 11.5 percent in 2010. Similarly, Real Gross State (DC) Product is projected to fall in 2009 (-1.2 percent) and 2010 (-0.7 percent).

In February 2009, total baseline Local revenue net of dedicated taxes was estimated to fall from the actual FY 2008 level of \$5.33 billion to \$5.17 billion in FY 2009 and \$5.03 billion in FY 2010. It will not be until FY 2013 that revenue will exceed FY 2008 levels.

To ensure the financial integrity of a balanced financial plan for the District of Columbia government and to minimize the impact of reduced service delivery during the current recession, the proposed budget incorporates a series of revenue adjustments designed to ensure financial balance over the four-year plan period. These range from adding language to correct and/or improve previously enacted laws that have had unintended consequences for revenue losses to the General Fund (for example, closing the Delaware Holding Company loophole), to increasing selected fees that have failed to keep up with inflation, to adjusting DC law to either conform to or de-couple from the American Recovery and Reinvestment Act of 2009 (the “Stimulus plan”), and to increase enforcement of laws to improve the public safety (for example, expanding automated enforcement of existing traffic violations). Each of these proposals is listed and described in the Revenue Chapter of the Executive Summary of the Mayor’s proposed budget.

The FY 2010 proposed budget uses a total of \$183 million in General fund balance, including \$107 million Local fund balance. Of the \$107 million in Local fund balance proposed for use, \$57 million was already so designated in the FY 2008 fund balance and \$50 million comes from the \$86.7 million unreserved and undesignated balance as of September 30, 2008 (see Attachment 2 for a depiction of the total General fund balance at the end of FY 2008).

PROPOSED FY 2010 GROSS FUNDS BUDGET

The proposed FY 2010 gross funds operating budget (excluding intra-District Funds) is \$10.3 billion, an increase of \$346 million or 3.5 percent from the FY 2009 approved gross funds budget of \$10.0 billion. This expenditure increase is primarily due to increases in Federal revenues. The Local and non-Local funding components of the proposed FY 2010 gross funds budget and the changes from FY 2009 are summarized in Table 3 below.

Table 3				
FY 2010 Gross Funds Budget by Fund Type				
(\$ in thousands)				
Fund Type	FY 2009 Approved	FY 2010 Proposed	Dollar Change	% Change
Local	5,596,901	5,376,707	(220,194)	-3.9%
Dedicated Tax	235,516	302,618	67,052	28.5%
Federal	2,248,769	2,662,393	413,624	18.4%
Private	5,418	4,660	(758)	-14.0%
Special Purpose	531,525	571,529	40,004	7.5%
Total, General Operating Fund	8,618,129	8,917,906	299,777	3.5%
Enterprise and Other Fund	1,341,868	1,398,254	56,386	4.2%
Total Gross Funds	\$9,959,997	\$10,316,160	\$ 356,163	3.6%

The FY 2010 Proposed Budget includes \$186 million in Federal Stimulus funding that provides direct budget relief and more than \$90 million in Federal Stimulus funding for an array of operating grants. The estimates for Stimulus funds available to the District in FY 2010 have been provided by the various federal agencies involved and certified by my office, and the

Mayor and City Administrator are diligently completing the required applications as they become available.

CONTEMPLATED BORROWING AND DEBT BURDEN

The proposed FY 2010 capital program includes \$468.1 million in planned capital expenditures to be financed by \$433.5 million in new income tax secured revenue bonds (so long as they remain more cost effective than General Obligation (GO) bonds), \$3 million of PAYGO transfers for a Department of the Environment project required by the Environmental Protection Agency, and \$31.6 million from the Master Equipment Lease Program. An additional \$198 million in income tax revenue bonds will be issued for government centers, the consolidated lab, and capital deficit reduction.

The PAYGO funding of prior years for school modernization is replaced by additional bond financing for FY 2010 through FY 2013. Total debt service for all tax-supported debt as a percent of total General Fund expenditures is estimated to be within the District's 12 percent debt limit over the four-year plan period, reaching 11.89 percent in FY 2013. I am pleased to report that the debt service savings we expect from the income tax revenue bonds compared to GO bonds -- \$28 million over the financial plan period -- allows roughly \$400 million more debt capacity within the 12 percent cap, which is based on debt service expenditures as a percent of total general fund expenditures.

See Attachment 3 for projected debt ratios.

CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP), but it is limited by constraints on its levels of borrowing. Taken together, these factors place a premium on developing a sound CIP to make the best use of limited resources. The total proposed appropriation request for the FY 2010 - FY 2015 CIP is \$631.6 million for all sources (excluding the Highway Trust Fund), which consists of \$2.519 billion of new budget authority offset by \$1.887 billion of rescissions. The increased budget authority will be financed with income tax revenue bonds or GO bonds, PAYGO transfers from the General Fund, the Master Equipment Lease Program, and the local streets fund. See Attachment 4 for the FY 2010 – FY 2015 capital improvement plan.

As I said before, the Mayor has taken the opportunity of the current economic crisis to rationalize and “right-size” the budget. I and my staff look forward to continuing to work with the Mayor and the Council during the forthcoming budget deliberations.

This concludes my remarks. I would be pleased to answer any questions you may have.

Table 3-1
FY 2010 - 2013 Proposed Budget and Financial Plan: GENERAL FUND
(\$ thousands)

	FY 2008	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
	Actual	Approved	Adjusted	Proposed	Projected	Projected	Projected
1 Revenues							
2 Taxes	4,980,733	5,028,721	4,782,459	4,638,961	4,733,003	4,902,084	5,136,556
3 Dedicated Taxes	129,121	222,977	225,062	407,687	442,482	473,257	492,144
4 General Purpose Non-Tax Revenues	385,747	332,498	321,569	324,786	330,466	328,244	334,973
5 Special Purpose (O-type) Revenues	448,972	453,612	444,496	458,816	452,734	462,231	460,056
6 Transfer from Lottery	70,300	71,000	65,350	65,775	68,500	68,500	68,500
7 Sub-total, General Fund Revenues	6,014,873	6,108,808	5,838,936	5,896,025	6,027,185	6,234,316	6,492,229
8 Bond Proceeds for Issuance Costs	16,216	15,000	15,000	15,000	15,000	15,000	15,000
9 Transfer from Federal and Private Resources	1,850	3,497	3,497	3,497	3,497	3,497	3,497
10 Transfer from Enterprise Fund (HPTF) for Debt Service	2,512	0	0	0	0	0	0
11 Transfer from Other	1,938	0	0	0	0	0	0
12 Conversion to local funds from other funds	0	29,425	8,225	38,881	0	0	0
13 Transfer from Capital Fund Balance	0	400	400	0	0	0	0
14 Fund Balance Use	473,383	197,379	257,866	183,417	0	6,500	0
15 Revenue Proposals	0	11,260	4,500	118,955	104,118	110,425	112,603
16 Total General Fund Resources	6,510,772	6,365,769	6,128,424	6,255,775	6,149,800	6,369,738	6,623,329
17							
18 Expenditures (by Appropriation Title)							
19 Governmental Direction and Support	372,071	401,676	426,427	401,935	390,539	398,156	405,131
20 Economic Development and Regulation	398,179	337,153	340,070	320,230	241,254	246,021	247,804
21 Public Safety and Justice	1,044,463	1,013,201	1,015,033	1,049,228	1,059,469	1,077,764	1,100,683
22 Public Education System	1,447,460	1,431,100	1,338,385	1,438,941	1,431,731	1,504,509	1,544,771
23 Human Support Services	1,606,979	1,587,952	1,472,020	1,464,481	1,409,669	1,499,384	1,551,571
24 Public Works	563,778	602,285	602,286	621,402	596,262	618,164	637,088
25 Financing and Other	547,842	665,668	649,770	630,001	620,467	649,299	677,578
26 Cash Reserve (Budgeted Contingency)	0	46,000	0	0	40,500	0	0
27 Sub-total, Operating Expenditures	5,980,772	6,085,035	5,843,991	5,926,218	5,789,892	5,993,297	6,164,626
28 School Modernization Fund	0	106,000	106,000	0	0	0	0
29 Paygo Capital	140,737	19,014	19,014	2,984	0	0	0
30 Transfer to Trust Fund for Post-Employment Benefits	110,907	81,100	81,100	88,700	94,700	101,200	108,200
31 Transfer to Enterprise Funds - HPTF and Baseball Revenue Fund	86,986	72,769	66,402	53,907	51,106	51,095	49,315
32 Sub-Total General Fund Expenditures and Transfers	6,319,402	6,363,918	6,116,507	6,071,809	5,935,698	6,145,592	6,322,141
33 Transfer to Convention Center, TIF and Highway Trust Fund	0	0	0	179,045	204,988	221,597	230,235
34 Total Expenditures and Transfers	6,319,402	6,363,918	6,116,507	6,250,854	6,140,686	6,367,189	6,552,376
36 Operating Margin, Budget Basis	191,370	1,851	11,917	4,921	9,114	2,549	70,953
37							
38 Cash Reserve							
39 Emergency Cash Reserve Balance (2%, formerly 4%)	103,379	103,591	103,591	119,783	119,783	119,783	119,783
40 Contingency Cash Reserve Balance (4%, formerly 3%)	226,859	226,859	226,859	239,567	239,567	239,567	239,567
41 Total cash reserves - operating, emergency & contingency	330,238	376,450	330,450	359,350	399,850	359,350	359,350

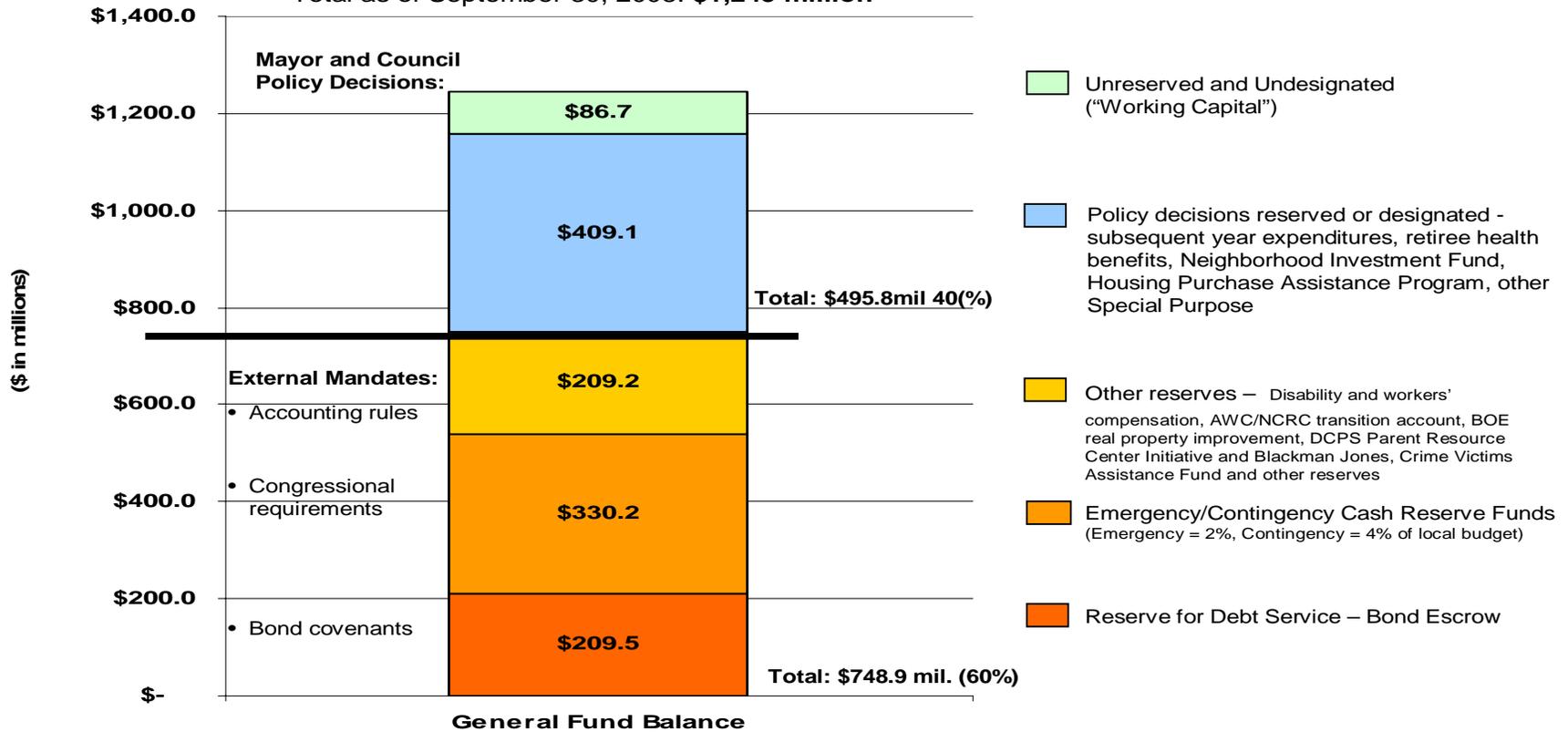
Notes:

Line 28 - Paygo for School Modernization Funds is in the Dedicated Taxes portion of the Financial Plan in FY 2009. From FY 2010, bond financing will be used to fund these projects in the Capital Improvement Program.

Line 33 - This is new in FY 2010. To add greater transparency, the transfer of sales tax revenues to the Convention Center Enterprise Fund, property and sales tax revenues to TIF (Tax Increment Financing) and PILOT (Payment of Lieu of Taxes) Enterprise Fund, motor fuel tax to the Highway Trust fund is now shown in Table 3-3, the Dedicated Taxes Component of the Financial Plan.

FY 2008 General Fund Balance

Total as of September 30, 2008: \$1,245 million



Debt Burden

Debt Service as % of Expenditures

(as of September 30 of each fiscal year)

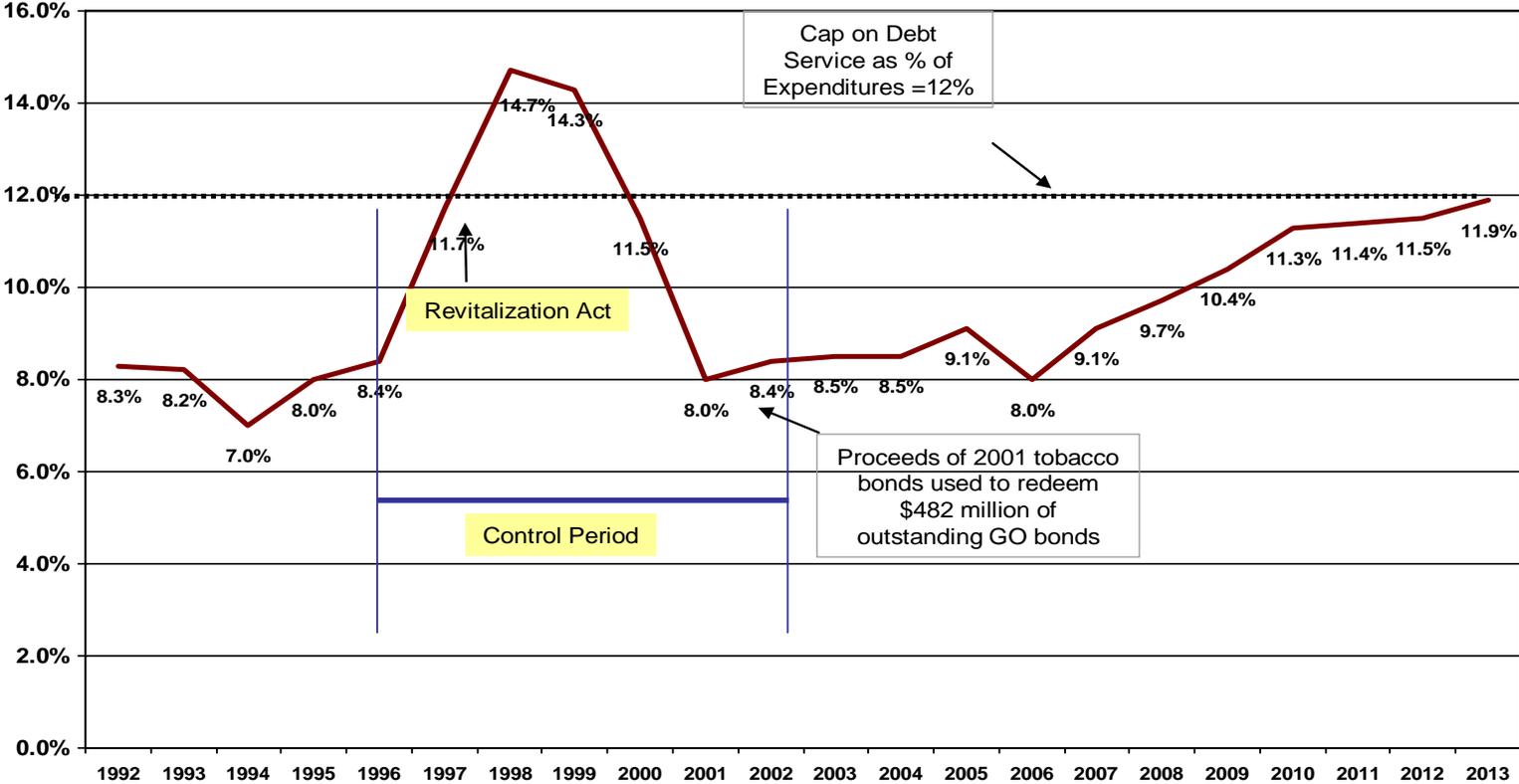


Table CA-3

Capital Fund Pro Forma

(Dollars in thousands; excludes Highway Trust and Local Streets Maintenance Funds)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Total, FY 2010 - FY 2015	Percent of FY 2010
Sources:								
G.O. Bonds	\$433,522	\$501,002	\$498,820	\$542,851	\$425,858	\$418,949	\$2,821,003	
Master Equipment Lease	31,636	40,894	34,814	30,739	29,468	21,346	188,897	
Pay-As-You-Go (Paygo)	2,984	0	0	0	139,269	147,818	290,071	
Subtotal, Sources	\$468,142	\$541,896	\$533,634	\$573,590	\$594,596	\$588,113	\$3,299,971	
Additional G.O. Bonds - Large Scale Financings	16,478	20,000	5,000				41,478	
Total, Sources	\$484,620	\$561,896	\$538,634	\$573,590	\$594,596	\$588,113	\$3,341,449	
Uses:								
Office of Public Education Facilities Modernization	\$236,435	\$250,202	\$268,825	\$288,886	\$306,198	\$321,508	\$1,672,055	50.5%
Washington Metropolitan Area Transit Authority	72,700	73,700	74,800	78,800	81,200	83,500	464,700	15.5%
Department of Parks and Recreation	31,900	57,610	45,520	42,020	42,810	39,998	259,858	6.8%
Department of Mental Health	15,770	0	0	0	0	0	15,770	3.4%
Fire and Emergency Medical Services Department	11,846	23,686	29,726	29,716	18,896	15,536	129,406	2.5%
Office of the Chief Technology Officer	11,649	20,931	14,685	12,561	11,115	12,565	83,506	2.5%
District of Columbia Public Library	11,238	21,880	17,893	27,000	27,000	27,000	132,010	2.4%
Office of Property Management	10,260	19,570	22,730	38,050	62,620	58,000	211,230	2.2%
University of the District of Columbia	8,540	8,015	5,520	4,150	2,700	0	28,925	1.8%
Department of Consumer and Regulatory Affairs	7,000	9,000	5,000	5,000	2,500	0	28,500	1.5%
Office of the State Superintendent of Education	7,000	0	0	0	0	0	7,000	1.5%
Department of Public Works	6,500	7,560	8,800	8,800	7,800	1,500	40,960	1.4%
Department of Housing and Community Development	6,375	7,675	4,950	7,500	4,250	5,000	35,750	1.4%
Office of the Chief Financial Officer	5,600	6,200	3,200	600	0	0	15,600	1.2%
Metropolitan Police Department	5,000	11,679	9,879	10,200	10,200	10,200	57,158	1.1%
Department of Transportation	4,700	8,300	9,300	7,500	7,500	6,000	43,300	1.0%
Department of Corrections	3,750	3,582	2,000	0	0	0	9,332	0.8%
Commission on Arts and Humanities	3,585	2,700	2,700	2,700	2,700	2,700	17,085	0.8%
Office of Unified Communications	3,500	6,000	5,000	5,000	5,000	2,500	27,000	0.7%
District Department of the Environment	2,984	0	0	0	0	0	2,984	0.6%
Office of Planning	1,311	2,106	2,106	2,106	2,106	2,106	11,843	0.3%
Office of the Deputy Mayor for Planning and Economic	500	1,500	1,000	3,000	0	0	6,000	0.1%
Subtotal, Uses:	\$468,142	\$541,896	\$533,634	\$573,590	\$594,596	\$588,113	\$3,299,971	100.0%
Large-Scale Financings (Office of Property Management)								
Consolidated Laboratory Financing	\$16,478	\$20,000	\$5,000	\$0	\$0	\$0	\$41,478	
Total, Uses	\$484,620	\$561,896	\$538,634	\$573,590	\$594,596	\$588,113	\$3,341,449	
Note: Details may not sum to totals due to rounding.								

